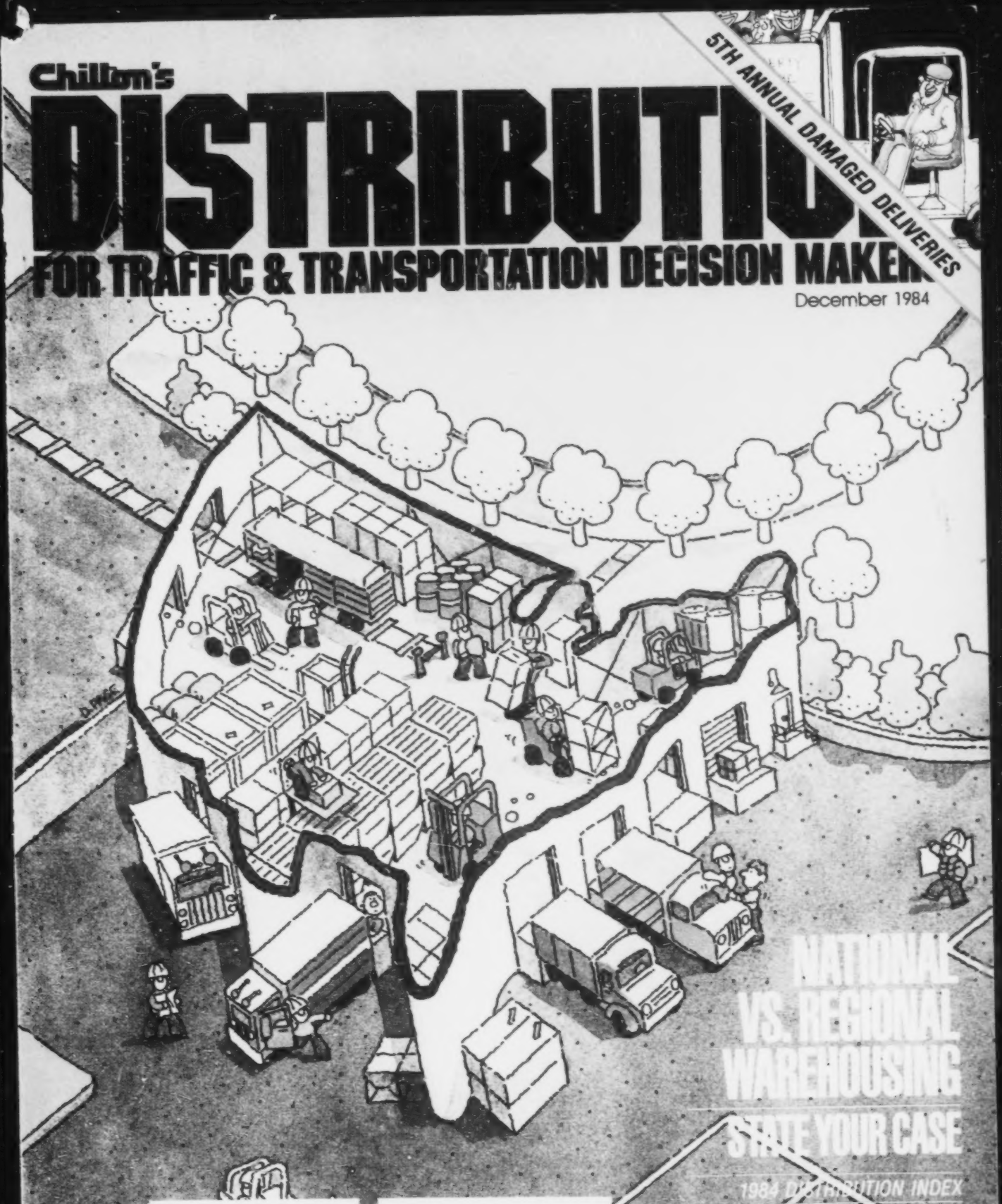
Chilton's

DISTRIBUTION

FOR TRAFFIC & TRANSPORTATION DECISION MAKERS

5TH ANNUAL DAMAGED DELIVERIES

December 1984



NATIONAL VS. REGIONAL WAREHOUSING

STATE YOUR CASE

1984 DISTRIBUTION INDEX

OCEANIA'S FINANCIAL REPORTS

MS SUSAN GARNER 10-1
CONGRESSIONAL INFORMATION SERVICES
4520 EAST-WEST HIGHWAY
BETHESDA MD 20814

VOL. 83, NO. 12

Chilton's
DISTRIBUTION

DECEMBER 1984

ESTABLISHED 1901

COVER STORY

10 NATIONAL VS. REGIONAL WAREHOUSES: STATE YOUR CASE
Naturally, it's a split decision, with pluses and minuses on both sides. The winner is anybody looking for public warehousing, because the judges at ringside are speaking from experience.

FEATURES

17 OCEAN/AIR FINANCIAL REPORTS
The recovery has been pervasive enough to provide hope for even the beleaguered domestic air and steamship industries. Continued deregulation offers more opportunities—but their own lack of restraint could bring about their downfall.

22 DISTRIBUTION'S DAMAGED DELIVERIES
Our annual holiday look at the year's most dubious achievements in its fifth incarnation.

27 WHAT FUTURE FOR PRIVATE TRUCKING?
Private carriage may indeed have a bright future, but it would pay to listen to regulatory and economic tunes carefully before hopping onto the bandwagon.

33 EDITORIAL INDEX
A handy, concise index of all the features, columns and other editorial matter that has appeared in the pages of DISTRIBUTION in the last twelve months.

COLUMNS

4 EDITORIAL By Thomas A. Foster
Distribution and the American dream

7 DIALOGUE
Time to talk packaging

37 CLAIMS by John Betz
The Elmore case: Still debating a thorny issue

39 DISTRIBUTION & WAREHOUSING By Denis Davis
Take stock in Syracuse

41 ANSWERS & AUDITS
The proof is in the package

43 SMALL SHIPMENTS By Joseph V. Barks
UPS could get comers from all corners

46 COMPUTER By Thomas A. Foster
The outlook for software integration

50 HAZARDOUS MATERIALS By Bob Jordan
'The inspector is here to see you'

52 MANAGEMENT By Denis Davis
Labor wins one for this manager

53 INTERNATIONAL By Thomas A. Foster
What looks like a teddy bear could be a tiger

55 LAW By Colin Barrett
To shippers, now rate bureaus are the turkeys

57 RAIL By Frank E. Shaffer
Shippers want an excess of access

61 TRUCKING By Kurt C. Hoffman
Contracting's awkward years

63 WASHINGTON By Stan Chapman
A new look at truckers' numbers

DEPARTMENTS

4 EDITORIAL STAFF

65 LITERATURE

67 GUIDE TO PUBLIC WAREHOUSES

89 READER SERVICE CARD

93 CLASSIFIEDS

96 LAST PICKUP

NEXT ISSUE

DISTRIBUTION'S
CASEBOOK

DISTRIBUTION, ISSN 0273-6721, owned by Chilton Co., is published monthly at Chilton Way, Radnor, PA 19089, (215) 964-4000. Chilton Co. is a division of American Broadcasting Companies, Inc., New York, N.Y. Second Class Postage Paid at Wayne, PA 19087 and additional mailing offices. ©CHILTON COMPANY 1984. Subscription rate: U.S. and possessions, $25 per year. Canadian, $30. Foreign $50. Single issue $2.00 except Distribution Guide issue—$20 per copy. Postmaster: Send form 3579 to DISTRIBUTION, P.O. Box 1438, Riverton, NJ 08077. Permission to photocopy for internal use or the internal use of specific clients is granted by Chilton Company for libraries and other users registered with the Copyright Clearance Center (CCC), provided that the base fee of $1.00 per copy of the article, plus 25¢ per page is paid directly to the CCC, 21 Congress Street, Salem, MA 01970. Special requests should be addressed to the Editor-in-Chief. (0273-6721/84 $1.00 + 25¢.)

DIALOGUE

In our September Dialogue, we asked for your views on packaging requirements and the desireability and need of NMFC-regulated standards, and for insight into what action you're taking on your own behalf to reduce troublesome damage claims through package design and testing. Appropriately for the season, the respondents have followed a strategy employed on children's Christmas wish lists; they name everything under the sun, stretch Santa's good nature to the limit, and hope for the best, knowing they probably won't get all they want.

While hard-and-fast standards received some solid votes of support, an anomallous result in these deregulatory times, shippers seemingly have no common desires more specific than reducing claims frequency without giving carriers a license to be careless:

"I'm for standardized simulation testing of packages, with authorizations for variance from the standard permitted when field test results support them."**—Unsigned.**

"We are a custom shop and are currently looking for a better means of packaging."**—Mary L. White, plant manager, Da-Lite Screen Co., Cincinnati.**

"Standard packages and standard size cartons in our business make for easier stacking, palletizing, and equally easy counting and loading."**—Dan Rean, warehouse & distribution manager, Keystone Publications, N. Amityville, N.Y.**

"I would like to see packaging for all cartons be submitted for NSTE testing, and then labelled accordingly."**—W. Lasch, traffic manager, Highsmith Co., Inc., Fort Atkinson, Wi.**

"I would like to see packaging standards developed. This would then negate motor carrier allegations that faulty packaging rather than improper handling caused in-transit damage."**—W.P. Bryan, traffic manager, Baker Packers, Houston.**

"As a furniture manufacturer, we have been highly involved with the 'F' packages in both classifications. We believe these standards should be maintained to measure the effectiveness of packaging in claims settlements."**—William Poulos, manager of distribution & traffic, Hamilton Industries, Inc., Two Rivers, Inc.**

"My company has left the packaging decision to our vendors. Many of our claims are due to poor packaging, thus resulting in poor customer relations."**—Dennis Bietry, transportation coordinator, Ramada Inns, Inc., Pheonix, Ariz.**

"Packaging rules should also apply to inbound shipments from foreign sources. I can understand why carriers are unhappy—some of these are

continued

QUESTION OF THE MONTH

Shippers are giving money away. Millions of dollars have been paid incorrectly to carriers as a result of billing errors, duplicate payments, overcharges, and so on. Some of this money is returned to the shipper after an audit, with the audit service getting a healthy share. But just as often, these payments are never detected by the shipper.

Much of the fault falls squarely at the feet of the shipper. Commodites are misdescribed. Shipments are misrouted. Rates are not checked. Bills are paid without checking to see if they are duplicates, or they are paid so slow that multiple bills are inevitable. Even computerized payment systems don't always solve the problem because of poor procedures and keyboard errors.

Carriers haven't done much to help the problem. Bills often are incorrectly rated. Overpayments are not sought out, and are handled casually when found. Carrier factoring houses often send out duplicate bills of their own. Bankrupt carriers are now causing problems by sending out " balance due notices " for shipments made years before.

DIS RIBUTION will be doing an indepth report on this problem in early 1985. We need your help to focus our efforts on the most critical aspects of the problem. Please fill out the DIALOGUE card below.

DIALOGUE

• What do you think is the greatest cause of freight charge overpayment? _____Carrier/Factor duplicate billing; _____Shipper payment error; _____Commodity misdescription; _____Inadequate freight payment system

• What percentage of your freight budget do you think is wasted on some form of overpayment? _____percent.

• Do you now, or have you had a problem with carriers, their factors or clearing houses sending you duplicate bills? _____Yes _____No. If, yes, do you think the duplication was intentional? _____Yes _____No.

• Do you have a problem with "balance due notices" from bankrupt carriers or their representitives? _____Yes _____No.

• What do you think is the best safe-guard for avoiding problems with overpayments? _____Pre-audits; _____Post-audit; _____Computerized freight payment system; _____More or better traffic people _____Other(please describe) _____

What system do you use to avoid problems with over payments? Please describe below.

_____

_____

_____

_____

_____

OPTIONAL:

_____

NAME (print) _____ TITLE _____

COMPANY _____ PHONE _____

ADDRESS _____

CITY _____ STATE _____ ZIP _____

FIGURES IN SPEECH

(Quotes from transportation and distribution notables that caught the ears of DISTRIBUTION Editors while covering the industry meeting and seminar circuit:)

"There are those today urging that Congress limit the principle of free enterprise by amending the Staggers Act and returning to some of the old ways of regulation. In the short term, some shippers and boxcar owners may experience some benefit. But in the long term...the shipper will be at the mercy of another form of competition, because there will be no railroad competition. One cannot reasonably believe in the free enterprise system for everyone but the railroads."
—Stanley Crane, chairman and cheif executive officer, Conrail, at American Short Line Railroad Assn. Annual Meeting

•

"It is very likely that, before the end of the next decade, the number of railroads controlling the vast bulk of the industry will again be cut in half. By 1995 the bulk of the nation's commerce could be dominated by four or less railroads—carriers with no incentive to serve the nation other than to maximize the profits of their carefully define fiefdoms."
—Fred M. Zitto, manager, U.S. distribution operations, International Paper Co., at Washington, D.C. press conference.

so flimsy that they fall apart at a touch."**—W.J. Putnam, traffic manager, F. Korbel & Bros., Guerneville, Calif.**

"We as shippers should know what kind of packaging to use, but often carriers disregard notes, such as 'do not stack,' or 'this side up.' Let's work together to set standards and follow through with proper loading procedures."**—Jack J. Hanus, corporate traffic manager, Miller Electronic Mfc. Co., Appleton, Wisc.**

"Good packages, yes!; federal standards, no! What are the 'normal hazards of transportation'?"**—D.J. Gallagher, traffic manager, Aldon Industries, Inc., Calhoun, Calif.**

"Companies that package their freight poorly tend to damage other companies' freight. The carriers should not be held at fault."**—R. Birelex, traffic manager, Continental Ref., Exton, Pa.**

"Let's leave well enough alone. The NMFC standards, while not perfect, put liability on both shipper and carrier, and have worked well up to now. The NFCC proposal would be a can of worms."**—James J. Paule, traffic manager, Spangler Canoy Co., Bryan, Oh.**

"Although I'm a strong deregulator, carriers must agree *in advance* that the package is an approved one. Otherwise, we will see an unnecessary and large increase in the number of claims moving into the courts or, if the dollars are too low, they will simply be dropped."**—Glen E. Schneider, transportation manager, Robinson's of Florida, St. Petersburg, Fla.**

STANDARDS GAIN FAVOR

Transportation manager/dept. called in on packaging decisions:	
always	43%
sometimes	34%
never	19%
Packaging engineer makes packaging decisions	28%
marketing decides	10%
input from many areas contributes to decision	55%
Shippers should develop packaging to withstand normal hazards, and	
free carriers from proving faulty packaging	47%
carriers should not be freed from proving faulty packaging	43%
undecided	9%
Would like to see federal standards for all modes	52%
would not like federal standards	38%
Have looked at standardizing case sizes	59%

NO POSTAGE NECESSARY IF MAILED IN THE UNITED STATES

BUSINESS REPLY MAIL
FIRST CLASS PERMIT NO 39 WAYNE PA

POSTAGE WILL BE PAID BY ADDRESSEE

Chilton's
DISTRIBUTION
P.O. Box 2105
Radnor, Pennsylvania 19089

OCEAN/AIR FINANCIAL REPORTS

The recovery has been pervasive enough to provide hope for even the beleaguered domestic air and steamship industries. Continued release from regulatory restriction contributes further to those modes' optimistic moods—but their own lack of restraint could prove to be their downfall.

DISTRIBUTION Staff Report

RANKING OF AIRLINES

By Freight Ton Miles—1983

1. Flying Tiger	2,019,238
2. Northwest	829,125
3. Pan American	680,116
4. United	592,045
5. American	511,217
6. Trans World	336,287
7. Delta	234,504
8. Eastern	231,435
9. Continental	138,587
10. Western	117,975
11. Zantop	51,878
12. Republic	49,133
13. Arrow	44,371
14. World	34,320
15. Hawaii Express	21,506
16. Alaska	21,111
17. Piedmont	13,298
18. Alaska Int'l	11,866
19. USAir	11,169
20. Frontier	10,726
21. Wien	10,117
22. Capitol	9,059
23. Ozark	6,022
24. Evergreen	5,834
25. PSA	5,023
26. Challenge	4,370
27. Air Florida	4,264
28. Pacific East	4,012
29. Transamerica	3,421
30. South Pacific	2,175

Source: Air Transport Association

The nation's all-purpose economic revival even has air and ocean carriers breathing fresh financial air for a change. And the immediate future remains clear. Two long-awaited legislative actions—the formal sunset of the Civil Aeronautics Board, and the passage of the Shipping Act of 1984—now offer the carriers in both modes a chance to control their own destinies and steer their operations toward further profit opportunities.

But the rarified good fortune now being savored by the air and water segments could be choked off at a moment's notice, if carriers choose to return to the short-sighted practices which have cost them so dearly in the past. Pivotal periods lie ahead, during which carriers will decide whether there can be long-range financial viability for more than just an elite few of their ranks.

For now, though, everyone's doing fine, thank you—or at least a lot better than they have in previous reporting periods. Take a look, for example, at the latest figures we present for the airline industry in the tables on this page and on page 19.

The "Ranking of Airlines" table reflects freight-ton-mile totals for

continued

IATA CARRIERS' FREIGHT AND AIRMAIL TRAFFIC 1983

Millions of Ton-Kilometers Performed	INTERNATIONAL 1983	INTERNATIONAL % change* over 1982	DOMESTIC 1983	DOMESTIC % change* over 1982	TOTAL 1983	TOTAL % change* over 1982
Freight						
Scheduled	20,405	10.0	4,978	6.6	25,383	9.3
Charter	821	–13.8	90	13.2	911	–11.8
Airmail	1,412	3.8	1,254	6.7	2,666	5.2

*The percentage changes have been adjusted to eliminate the misleading effect of IATA membership changes. They refer to the performance of airlines which were members in both 1981 and 1982.
Source: IATA Economics & Industry Finance Division.

1983 that are up for virtually every airline listed, and in some cases up quite significantly. Flying Tigers' already-impressive number-one position in the cargo field was magnified even farther during the year by virtue of its posting a gain of over 400 million ton miles at the same time last year's number two, Pan American, was losing nearly 300 million miles worth of cargo. But Pan Am was the only significant loser during the year. Other big gainers included the new number two, Northwest, which gained over 230 million ton miles, and United, which jumped over 100 million ton miles.

From a profit standpoint, there's still a fair amount of red splashed across the "ATA Airline Statistics" table for 1983, but the blame for the losses that persist can usually be laid at the feet of continued passenger-fare wars. Much more telling figures from a freight standpoint can be gleaned from the "1973-1983" highlights table, which shows a record total for freight ton miles (over 6 billion) and the second-highest figure ever for freight revenues ($2.492 billion, second only to 1981's $2.512 billion). The strong freight performances went a long way toward helping the scheduled airlines post their first operating profit ($300 million) since 1979.

The renewed strength of the domestic industry was mirrored by figures for international air carriers that were released by the International Air Transport Assn. (IATA) in its latest annual report. The IATA figures for 1983 showed a 10 percent increase from 1982 for scheduled freight tonnage carried by its member airlines. "These trends reflect the upswing of the U.S. economy and the strength of the U.S. dollar, which encourage imports from Europe and the Far East," IATA said.

The airlines are finding the return to better times to be so sweet, though, as to almost be alarming. And so they remain extremely cautious about the prospects for continued recovery. As the IATA report notes, "The financial outlook is finely balanced. Profit margins are expected to remain wafer thin and extremely sensitive even to slight changes in capacity, yield or unit cost trends. The airline industry as a whole is still not earning nearly enough fully to cover all costs including fleet and other equipment replacement. This applies even to individual airlines showing a good upturn in profits."

ATA AIRLINE STATISTICS 1983

	Cargo Ton Miles (000)	Operating Profit (Loss) (000)	Net Profit (Loss) (000)
AirCal	1,682	17,278	3,714
Air Florida	5,568	(16,309)	(50,941)
Alaska	30,904	25,415	15,728
Aloha	1,236	1,000	6,654
American	679,965	249,517	212,874
Capitol	11,924	(20,022)	(29,242)
Continental**	165,017	(170,882)	(170,058)
Delta	356,173	(57,207)	(13,930)
Eastern	349,886	(100,106)	(183,667)
Evergreen	5,834	9,858	2,206
Federal Express	310,529	184,595	108,213
Flying Tiger	2,118,910	6,234	(67,517)
Frontier	24,769	(21,699)	8,398
Hawaiian	1,461	4,055	16,574
Muse	438,537	4,616	(1,959)
Northwest	979,753	69,499	50,073
Ozark	15,398	2,439	1,954
Pan Am	878,874	13,131	(51,025)
Piedmont	28,296	58,492	25,539
Pacific Southwest	9,261	(10,005)	(12,599)
Republic	78,926	(30,889)	(111,031)
Trans World	508,872	(65,248)	(12,373)
United	876,821	152,363	130,464
USAir	41,439	128,871	78,382
Western	167,142	(56,372)	(54,485)
Wein Air Alaska	18,820	(2,239)	(2,175)
Associate Members			
Air Canada	437,000	28,400	3,800
CP Air	185,819	(1,586)	(13,127)

†Discontinued operations on May 13, 1981.
**Includes Texas International, which merged with Continental Nov. 1, 1982.

Capacity Catastrophe?

Even less confidence exists in the maritime industry, despite the existence there, too, of encouraging numbers for the year just completed, and for the short-term period ahead.

Our analysis here of the industry is drawn from a special outlook prepared last summer by the Baltimore, Md. investment banking firm of Alex. Brown & Sons. The Brown report concentrated

continued

1973-1983 HIGHLIGHTS
U.S. Scheduled Airlines

Traffic—Scheduled Service	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Freight ton miles ($000)	4,736,729	4,890,026	4,766,118	5,074,193	5,385,129	5,763,249	5,907,731	5,685,622	5,618,113	5,397,701	6,020,527
Freight revenue ($000)	1,038,459	1,216,332	1,295,100	1,482,502	1,687,302	1,939,062	2,155,228	2,370,468	2,512,796	2,351,099	2,492,858
Operating Profit ($000)	585,266	725,740	127,879	721,933	908,040	1,364,863	199,055	(221,615)	(454,770)	(733,435)	310,410
Net Income ($000)	226,693	321,641	(84,204)	563,354	752,536	1,196,537	346,845	17,414	(300,826)	(915,814)	(188,051)
Rate of return on investment (%)	5.1	6.4	2.5	8.6	10.9	13.0	7.0	5.8	5.3	2.7	5.9

on the performance of three major U.S. container lines: American President Lines, Sea-Land, and U.S. Lines. It wasted little time tempering an upbeat short-term analysis with warnings of significant roadblocks to further recovery on the horizon.

"A deterioration in rates and load factors is likely to begin on some trades in 1985," the Brown report said, "and this will worsen in 1986, due to the substantial increase in the world container shipping fleet capacity over the next two years."

Unless it can be checked, Brown and other analysts agree, the capacity glut will quickly work to undo any gains the U.S.-flags can hope to make as the result of new service and rate opportunities created by the 1984 Shipping Act. "While (the new opportunities) will strengthen the relative position of the U.S-flag operators," the Brown report says, "they will not be able to escape the consequences of the increasing oversupply we anticipate in 1985 and 1986."

Spurred by aggressive capacity increases by McLean Industries' U.S. Lines (see tables at left), Brown's analysts foresee the following consequences of unabated buildups in the U.S. trades:

- A drop in load factors on all routes, especially on U.S. export trades and services eastbound from Europe.
- The declining load factors will aggravate the existing trade imbalance and raise the costs of repositioning.
- Other operators will respond by investing in new-generation vessels and by "jumboizing" existing vessels.
- A rate war will be highly probable, and the profitability of the inefficient or unprepared will be severely squeezed. Both Evergreen and McLean, Brown notes, will be able to operate profitably at well below current rates.
- Finally, the battle for backhaul cargo from the U.S. will intensify, with intermodal operators responding by introducing cost-efficient improvements on rail services.

Given this scenario, the Brown analysts are forced to conclude that "post-1984 prospects look disturbing" because of the capacity crisis—even if the current balance sheets of U.S.-flags are healthier than they have been for some time. ★

ESTIMATES OF THE LEADING U.S.-FLAG CONTAINERSHIP OPERATORS' SHARE OF MARKET CAPACITIES

	Mid-1984			Mid-1986		
	APL	McLean	Sea-Land	APL	McLean	Sea-Land
Trans-Pacific	10.9%	3.9%	9.2%	8.9%	7.6%	14.5%
North Atlantic	—	11.2	18.0	—	15.2	14.0
Middle East	—	—	4.0	—	8.2	2.6
Europe/Far East	—	—	—	—	8.2	—
Total	4.3%	4.4%	8.9$	3.1%	9.4%	9.0%

ESTIMATED CAPACITY OF THE LEADING U.S. FLAG OPERATORS

TWO WAY ANNUAL SLOT DEPLOYMENT—000's OF TEUs

	Mid-1984			Mid-1986		
	APL	McLean	Sea-Land	APL	McLean	Sea-Land
Trans-Pacific	443.6	157.2	373.2	443.6	378.6	725.2
North Atlantic	—	299.4	478.4	—	520.8	478.4
Middle East	—	—	72.2	—	221.4	72.2
Europe/Far East	—	—	—	—	221.4	—
Total	443.6	456.6	932.8	443.6	1,342.2	1,275.8

OCEAN CARRIER FINANCIAL FORECAST

	McLean Industries	Sea-Land	American President Lines
Revenues (in millions)			
1983	$ 785.5	$1,586.1	$ 752.6
1984 (est.)	1,020.0	1,780.0	969.0
1985 (est.)	1,420.0	1.850.0	1,120,0
Earnings per Share			
1983	$0.53	$1.73	$1.97
1984 (est.)	1.80	3.60	7.50
1985 (est.)	2.60	3.20	8.45
Cash Flow per Share			
1983	$1.91	$ 8.79	$1.97
1984 (est.)	3.28	10.35	7.50
1985 (est.)	4.71	9.55	8.45
Book Value per Share	$7.51	$26.17	$29.69
Long-Term Obligation/ Stockholders' Equity 12/83	217.5%	83.7%	93.3%
1983 Cash Flow/Long-Term Obligations	11.7%	40.2%	23.8%

Source: Alex. Brown & Sons, Inc., Baltimore.

CONTAINERSHIP LOAD FACTOR FORECAST

BY TRADE REGION

	TRANSPACIFIC	NORTH ATLANTIC	EUROPE/ FAR EAST
1984	81.4%	75.5%	62.7%
1985	84.5%	72.0%	62.0%
1986	74.5%	66.5%	53.3%

Source: Planning Research Corp.